



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 139 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22nd AND TUESDAY 23rd NOVEMBER 2021

The Monetary Policy Committee (MPC) met on 22nd and 23rd November 2021, in light of the continued recovery of the global economy and improving output growth in the domestic economy. Though, the growth outlook for the global economy for the rest of the year and into 2022 remains favourable, the uneven pace of recovery across countries has persisted. This was driven primarily by country and regional disparities in COVID-19 vaccination rate, size of policy support and regional economic conditions. On the domestic front, the continued support by the monetary and fiscal authorities is sustaining the growth recovery, notwithstanding the persistence of security challenges and legacy infrastructural constraints. The Committee appraised the developments in the global economy, international financial environment and the domestic economy, as well as the outlook for the rest of the year and the first quarter of 2022.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

Global output growth has remained upbeat as economic agents defy the continued threat posed by the sharp rise in infection rates associated with new strains of the COVID-19 virus. Despite the forecast for a robust recovery of the global economy in 2021, the uneven pace of vaccination across the globe and the continued rise in infection rates by the more fatal and mutating strains of the COVID-19 virus, suggest that the current two-speed recovery of the global economy may persist longer than anticipated. This may, however, be remedied

if governments across the globe rally to improve coordination in the distribution of vaccines to aid the early attainment of global herd immunity. The Committee noted that the downside risks to the recovery may persist if the spread of these new variants is not addressed urgently.

In light of the above dynamics and associated headwinds, the International Monetary Fund (IMF) downgraded its 2021 growth forecast for the global economy from 6.0 per cent to 5.9 per cent. It also revised the projection for the Advanced Economies downwards from 5.6 per cent to 5.2 per cent. The downgrade was, however, offset by an upgrade of the growth forecast for Emerging Markets and Developing Economies (EMDEs) in 2021. Thus, the forecast for the Emerging Markets and Developing Economies was revised upwards to 6.4 per cent from 6.3 per cent.

Inflation across several Advanced Economies is expected to continue its upward trend into 2022, contrary to earlier expectations of transiency, as commodity prices continue to recover and feeding into energy and goods prices. This is on the backdrop of rising demand, associated with the sustained rebound in global output growth, amid lingering supply constraints. In response to the persistence of price development, the US Federal Reserve Bank has announced its intention to commence tapering its monthly bond-buying programme by the end of November 2021. Other advanced economy central banks have also indicated the likelihood of following suit in the short to medium term. In key Emerging Market and Developing Economies, inflation remained relatively high compared with the Advanced Economies. This is mostly due to supply-side constraints associated with the Pandemic; exchange rate pressures; and other legacy structural problems. The severity of inflationary pressures in this group of economies, however, varies across countries in relation to the specific structure and dynamics of the individual economies.

In the global financial markets, equity prices largely maintained a strong post-lockdown recovery, while investors continued to maintain a sizeable hedge in gold, possibly to ease the impact of a rebound of the Pandemic as infection

rates continue to rise. The financial markets remained moderately bullish, an indication that investors remain cautious in view of the unabating Pandemic. This is reflected by the price of Gold, which has remained well above pre-Pandemic levels.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) grew by 4.03 per cent (year-on-year) in the third quarter of 2021, compared with 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. The growth trajectory has thus, been positive in the last four quarters following the exit from the recession in 2020. Quarter-on-quarter, real GDP grew by 11.07 per cent in Q3 2021 compared with -0.79 per cent in the preceding quarter. This improvement in real GDP was driven by growth in both the oil and non-oil sectors by 12.05 and 10.99 per cent, respectively. The Committee also noted the continued improvement in the Manufacturing Purchasing Managers' Index (PMI), which though, remained below the 50-index point benchmark, rose to 47.3 index points in October 2021 from 46.6 index points in September 2021. This improvement indicated a gradual recovery of output growth, driven largely by the increase in new orders associated with rising aggregate demand and upswing in business activities. The Non-Manufacturing PMI, however, declined to 47.5 index points in October 2021 from 47.8 index points in September 2021 as uncertainties persisted around the poor security situation.

The Committee noted the continued moderation in headline inflation (year-on-year) to 15.99 per cent in October 2021 from 16.63 per cent in the previous month, the seventh consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 18.34 and 13.34 per cent in October 2021 from 19.57 and 13.74 per cent, respectively in September 2021. Inflation, however, remained above the Bank's implicit tolerance corridor of 6 – 9 per cent and above its benchmark policy rate of 11.5 per cent despite its progressive decline.

Observing developments in monetary aggregates, the Committee noted that broad money supply (M3) grew by 7.10 per cent in October 2021, compared with 4.72 per cent in September 2021. This was driven by growth in Net Domestic Assets (NDA) by 9.12 per cent in October 2021, compared with 10.71 per cent recorded in September 2021. Net Foreign Assets (NFA), on the other hand, contracted moderately by -1.50 per cent in October, compared with -20.85 per cent in the preceding month. The continued growth in Net Domestic Assets (NDA) was largely driven by increased claims on the Federal Government and other public nonfinancial corporations, private sector and state and local governments.

In the financial markets, money market rates oscillated within the standing facilities corridor, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.18 per cent in October 2021 from 11.11 per cent in September 2021, while the monthly weighted average Inter-bank Call rate decreased from 13.21 per cent in September 2021, to 10.00 per cent in October 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity condition in the banking system.

The MPC noted the positive performance of the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization(MC) increasing to 43,199.27 and ₦22.55 trillion on November 19, 2021, from 39,219.61 and ₦20.43 trillion on August 31, 2021. This depicts improved investor sentiment, following impressive corporate earnings of listed companies on the Exchange. This has led to a new bargain hunting drive by investors.

The MPC noted that the Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) both remained above their prudential limits at 15.2 and 41.2 per cent, respectively. The Non-Performing Loan ratio (NPL) at 5.3 per cent in October 2021, reflected progressive improvement, compared with 5.7 per cent in October 2020. The Committee, however, urged the Bank to sustain its tight prudential regime to bring the Non-Performing Loan (NPL) ratio below the 5.0 per cent prudential benchmark.

The gross external reserves stood at US\$41.41 billion as at November 18, 2021, compared with US\$41.34 billion in October 2021, a moderate increase of 0.17 per cent.

Outlook

The overall outlook for both the global and domestic economies remain upbeat but for the significant downside risks clouding the path to full recovery. The key risks remain the unabating COVID-19 pandemic and uneven progress in vaccination. As the US Federal Reserve Bank commences scaling down of its monthly bond-buying programme, there is increased likelihood that other advanced economy central banks will follow in the same direction. With this impending development, external financial conditions will likely tighten for most EMDEs, in view of huge capital flow reversals to the Advanced Economies as yields rise. This will no doubt deepen the growth divergence between these two groups of economies.

Forecasts for key macroeconomic variables for the Nigerian economy, indicate continuing rebound in growth recovery for the rest of the year. This is expected on the back of continued support by both monetary and fiscal policy, sustained high crude oil prices and most importantly, availability of COVID-19 vaccines as well as high turnout for vaccination in Nigeria. Accordingly, the Nigerian economy is forecast to grow in 2021 by 3.10 per cent (CBN), 3.0 per cent (FGN) and 2.6 per cent (IMF). Inflation is expected to continue its downward trajectory as the harvest season sets in and the government works on improving the security situation to ease the bottlenecks constraining food supply.

The Committee's Considerations

The Committee commended the continued recovery in output growth following a positive outcome in the third quarter of 2021.

Based on the current outlook for price development and growth, Members carefully reviewed the options confronting the Committee in the short to medium term, taking into consideration, key downside risks to growth and

upside risks to inflation. Members reiterated the need to remain cautious and urged both the monetary and fiscal authorities to sustain their support for the recovery, as the Pandemic was yet to be over. The Committee, however, noted that with the sustained intervention by the Bank, economic activities will normalize in the short to medium term, leading to improved output growth and lower inflationary pressure. The MPC also urged the fiscal authorities to sustain the current effort to revamp the economy through continued support to the critical sectors of the economy.

The continued security challenge across the country remained a major source of concern for Members, noting its impact on business confidence, foreign investment inflows and overall economic activities. The persistence of insecurity in major food producing areas, remained a key downside risk to the recovery. The Committee called on security agencies in the country to increase their presence in order to boost public confidence and facilitate the movement of people, goods and services across the country. With improved security, especially in these food producing areas, Members expressed optimism that food inflation will drop significantly following successful harvests and distribution.

The Committee also commended the gradual diversification of the economy with the increased contribution of the non-oil sector to Government revenues and called for more support to increase non-oil exports as a source of foreign exchange earnings into the economy.

Members also reiterated the impact of poor infrastructure on rising domestic price levels, urging the Federal Government to prioritize investment in public utilities to improve the business environment. These include transportation networks, power supply, education and health. Following the President's recent international call to investors to channel investments to Nigeria, Members were of the view that funding for such projects could be sourced through equitable partnerships with foreign investors and Nigerians in diaspora.

The Committee noted that the equities market remained in a strong position, signposting continued investor confidence in the Nigerian economy. Members

thus urged the monetary and fiscal authorities to build on this sustained confidence to attract more Foreign Direct Investment into Nigeria.

The MPC welcomed the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies, commending the Bank's Management for maintaining overall stability in the banking system. The Committee thus, called on the Bank to continue to push for increased intermediation as the way forward to reduce unemployment, enhance production, create wealth, and improve aggregate demand to strengthen the recovery. On this note, Members applauded the success achieved by the Bank's various intervention schemes, which have contributed to both the demand and supply sides of the economy.

The Committee reviewed the performance of the Bank's various interventions aimed at sustaining recovery of output growth and addressing the downside risks to other external and domestic shocks to the economy. Interventions continued largely in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Under the Targeted Credit Facility, the Bank has disbursed a total of ~~N~~363.49 billion to 766,719 beneficiaries, comprising 638,070 households and 128,649 small businesses. Under its Agribusiness Small and Medium Enterprise Investment Scheme (AgSMEIS), the Bank has released ~~N~~134.63 billion to 37,571 entrepreneurs.

Between September and October 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ~~N~~43.19 billion to support the cultivation of over 250,000 hectares of maize, sorghum, soya beans and rice during the 2021 dry season; and ~~N~~5.88 billion to finance six (6) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS).

Cumulatively the Bank has disbursed the total sum of ~~N~~864 billion to 4.1 million farmers, cultivating 5.02 million hectares. The bank also disbursed the sum of ~~N~~41.2 billion for the commencement of the brown revolution, a large-scale wheat program to wean us off imports by 35 per cent in the first year.

In addition, the Bank disbursed the sum of ~~N~~261.92 billion for 42 additional projects under the ~~N~~1 trillion manufacturing intervention. Cumulatively, the bank has disbursed the sum of N1.08 trillion under this Scheme. As part of its effort to support the resilience of the healthcare sector, the Bank disbursed ~~N~~5.39 billion to Nine (9) healthcare projects under the Healthcare Sector Intervention Facility (HSIF). The Bank has also cumulatively disbursed the sum of ~~N~~108.65 billion to hospitals and pharmaceutical industry. 54 of the 117 projects funded are for hospital services. Committee was gratified that the funding under Health sector has resulted in establishment of two (2) new Cancer Centers, over 59 MRI and more than 42 CT Scan Centers in Nigeria, within the last 18 months

To further promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to create a paradigm shift among undergraduates and graduates of tertiary institutions in Nigeria, from white-collar jobs towards entrepreneurship development. The guidelines for the implementation of the Scheme was recently published, as Bank of Industry (BOI) is presently partnering with the Bank for the pilot implementation phase.

Under the National Mass Metering Programme (NMMP), ~~N~~8.69 billion was disbursed to four (4) Distribution Companies (DisCos) under the scheme's Phase-0. The sum of ~~N~~47.66 billion has been disbursed so far for the acquisition of 858,026 meters. Also, in furtherance of its intervention in the energy sector, the Bank released ~~N~~27.03 billion to power sector players under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This is in addition to the ~~N~~37.69 billion disbursed to eight (8) Distribution Companies (DisCos) recently, under the Nigeria Electricity Market Stabilisation Facility (NEMSF-2).

The Bank has disbursed the sum of ~~N~~39.2bn under the Nigerian gas expansion program to promote the migration to compressed natural gas (CNG) as the

preferred fuel for transportation and liquefied petroleum gas (LPG) as the preferred cooking fuel.

Furthermore, the Bank recently introduced the 100 for 100 Policy on Production and Productivity (PPP), designed to create the flow of finance and investments to enterprises with potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity in the country. It is geared to support private sector companies with the aim of reducing certain imports, increasing non-oil exports and improving the FX-generating capacity of the economy. The Bank will select and finance 100 of such companies at 100 day intervals, in line with detailed selection criteria as contained in the guidelines, and roll this over for another 100 companies for the next 100 days.

The Targeted Credit Facility (TCF) was particularly highlighted by the Committee for its contribution to alleviating poverty at the grassroots. The Committee thus urged the Bank to continue its support through the TCF to ensure that more people benefit from this programme.

With the announcement to commence monetary policy normalization by the US Fed and impending interest rate liftoff by central banks in some advanced economies, the MPC called on the Federal Government to intensify its drive towards a counter-cyclical fiscal policy in view of the imminent tightening of external financial conditions. Committee members, therefore, noted with concern that the gradual normalization of monetary policy by this group of economies would dampen the recovery of several Emerging Market and Developing Economies in the short to medium term due to the sharp reversal of capital flows.

The Committee also evaluated the developments in China relating to the reoccurring Pandemic, power outages and crisis in the property market, noting the likely impact these could have on Nigeria as a major trading partner. Members thus called on the Bank to ensure that the necessary buffers are put

in place to shield the economy from the downside risks associated with these developments.

In general, Members expressed confidence in the ongoing policies of both the monetary and fiscal authorities which in their view was the hallmark of the current recovery and restoration of macroeconomic stability in Nigeria. They, therefore, called on both authorities to look beyond the current position and plan towards attracting sustainable investment flows to Nigeria.

The Committee's Decision

At this meeting, MPC was gratified that its policy actions in the past had started to yield positive results given the remarkable improvement in GDP which stood at 4.03 per cent during Q3 of 2021 and the 6th consecutive month moderation in inflation to 15.99 per cent in October 2021.

Given the level of its conviction about the efficacy of its actions on macroeconomic variables, MPC felt that whereas tightening would further help to rein in inflation aggressively, it nevertheless feels that tightening will increase cost of funds and constrain output growth.

On the other hand, whereas loosening will lower policy rates, ease liquidity pressures, and stimulate additional credit creation which will boost output growth, MPC also thinks that loosening will further widen the negative real interest rate gap and compound the price distortions in the money markets which could fuel inflationary pressures.

As for whether to hold its existing stance, MPC believes that the existing monetary policy stance has supported the growth recovery and should be allowed to continue for a little longer for consolidation to achieve the MPC mandate of price stability that is conducive for sustainable growth. The Committee also feels that a hold stance will enable it to carefully appraise the implications of the unfolding global development around policy tapering and normalization by advanced economies.

Based on the foregoing, the Committee decided to hold all policy parameters constant to support the enabling environment for sustained recovery.

The Committee thus, decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent. In summary, the MPC voted to:

- I. Retain the MPR at 11.5 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

23rd November 2021

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

As FY (2021) draws to a close, it is clearer that the world is witnessing one of the fastest recoveries in many decades. Despite several headwinds, output recovery has proceeded in a vast majority of countries following the relaxation of the COVID-19 induced shutdowns and movement restrictions. In retrospect, we can see that this has not happened fortuitously. Globally, monetary and fiscal authorities have responded, and continued to respond robustly with both conventional and non-conventional tools. Thanks to technological innovations, it was possible to quickly rollout vaccines, and some other activities virtually. And so, the outlook for global growth continues to be impressive notwithstanding the resurgence of the pandemic. Importantly, countries have learned better ways of coping with the disease and of handling its fallouts. Lockdowns have consequently reduced in duration and frequency in the face of the new and more virulent strains of COVID-19 virus. Although the world is not out of the woods, the indicators are certainly not as bad today as they were in 2020.

The International Monetary Fund (IMF) currently foresees global output expansion of about 5.9 per cent in 2021 and 4.9 per cent in 2022, after discounting weak recovery in low-income countries. The complexity of the policy challenge has varied markedly across countries. Some countries including Nigeria have had to deal simultaneously with slow output and high inflation. Some have faced additional challenges of exchange rate volatility and low access to vaccines. Most low-income countries fall into the latter category, which explains the rather slow recovery in the group. The fact remains, however, that policy support and vaccination have played a tremendous role in output recovery everywhere. Both factors also underpinned the dichotomy in growth prospects across countries and especially between the global North and South.

Divergence in growth prospects continues to reflect the dynamics of policy support and access to vaccines. Most developing countries especially need a lot more resources to address growth challenges than they can afford. In fact, the IMF estimates the funding need of low-income (developing) countries at over US\$400 billion in October 2021. The resource constraint in these economies partly underpins their low access to vaccines, which is further complicated by the growing pressure for booster shots in countries that have already achieved high vaccination coverage.

Nigeria has also had her own share of growth challenges – insecurity, huge infrastructure deficit, constricting fiscal space, and so on. In this context, the output growth recorded in the first three quarters of the year and several months of uninterrupted deceleration in inflation obviously represent significant progress. Apparently, the overarching strategy of ensuring optimal liquidity and the deliberate targeting of key growth poles in the process is yielding the desired outcomes. The Bank's development interventions have combined well with the Federal Government of Nigeria (FGN) growth initiatives under the Fiscal Sustainability Plan to revive and sustain economic activity during the year. Needless to say, the sterilization actions of the Bank have effectively prevented the economy from overheating in the face of increased liquidity injections in response to the fallouts of the COVID-19 pandemic. Against the foregoing background, I voted at the November 2021 MPC to retain the monetary policy levers at their levels prior to the meeting, in line with my preferred policy path - continuation of the extant strategy of targeted intervention in critical sectors alongside sterilization actions to rein-in excess banking system liquidity. I outline subsequently in this statement my reflections on specific economic indicators.

Notwithstanding the positive outcomes so far on inflation and growth, the economy is yet to attain the pre-pandemic level on several fronts. Employment, for instance, continues to be a major policy concern. The surest bet to alleviating poverty is growth in employment which is tied to economic (output) expansion. In effect, the economy needs to expand at a faster rate than has happened up to Q3 2021, to generate more jobs. Even at the 4.03 per cent

overall real growth rate in Q3, some sectors (activities) were still struggling. Among those, Oil & Gas, Fishing and Oil Refining stood out. These activities and some others that barely crossed the line would continue to require policy support in the short- to medium-term. The need to sustain liquidity support to key economic activities is buttressed by the vulnerabilities in the horizon, including new variants of the coronavirus driving infection resurgence.

The outlook for inflation appears stable following seven (7) consecutive months of deceleration. The moderation in inflation is occurring at a fast pace, attributable mainly to the consistent effort towards boosting supply, rather than a decline in demand. Headline inflation is forecast to close the year at about 15.0 per cent. Barring any major shock, the current trajectory is expected to be sustained through the first quarter of 2022. Contrary to what is happening in most other climes, the recovery in domestic demand has not translated to new price shocks. Not only has output rapidly increased, the liquidity management strategy has kept banking system liquidity close to its optimal level. I therefore saw no immediate need to alter the stance of monetary policy on account of inflation at the November meeting.

Against the backdrop of tight liquidity management and the recent modification of the foreign exchange (FX) management strategy, the naira exchange rate has remained stable since the last adjustment at the I&E window. Meanwhile, the initial panic-driven depreciation at the parallel market has gradually given way to real market forces. Apparently, the revised FX management strategy, which excludes BDCs from direct sales, is working as a substantial share of FX demand has migrated to the DMBs' window. We should expect this pattern to continue in the coming months as confidence in the modified framework grows.

Overall, I figured that the primary purpose of policy at this point would be to preserve and possibly deepen the relative stability the economy has started to record. The current monetary policy configuration continues to be relevant in my view. There are concerns, nevertheless. The upward global price pressures

emanating from commodity price rises and pent-up demand, for example, is unsettling the outlook for stability. Some analysts believe that the current inflation pressures are largely transitory (reflecting pandemic-induced supply shocks and pent-up demand mainly) and should wane by the middle of 2022. However, this calculation would depend on what happens to inflation expectation. This implies that the current outlook for global inflation is uncertain, meaning the pressure could transmute into a persistent one, in which case monetary policy must adapt. This perhaps explains why some emerging economies including South Africa, Brazil, Mexico, Russia are shifting to less accommodative policy stances. Nevertheless, policy actions of the majority of central banks have not dramatically changed from being pre-occupied with output recovery, considering that the balance of risk continues to be tilted against growth.

For Nigeria, I do not think the time is ripe to look away from economic growth for at least two reasons. Though impressive, growth is still fragile and should benefit from a slightly much longer policy support. The second consideration is that the current pressures on domestic prices appear to be largely supply related, in which case, increasing domestic output of goods and services and easing distribution bottlenecks should go a long way in alleviating the pressure. Already, this is happening and, I should emphasize, extra fiscal support will be important especially to those sectors that are struggling to recover.

My overall judgement is that the extant monetary policy setting is optimal. The measures aimed at redirecting credit to critical sectors of the economy have got extra allowance for impact given that the banking system continues to be resilient with major financial soundness indicators (FSIs) showing robustness. I am persuaded to retain the major monetary policy parameters at their previous levels. In effect, I voted to:

1. Retain the MPR at 11.5 per cent.

2. Retain the Asymmetric corridor at +100/-700 basis points.
3. Retain the CRR at 27.5 per cent.
4. Retain the Liquidity Ratio at 30.0 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Development

Global economy activities continued to show improvement in Q3 2021. However, the recovery is progressing faster in advanced economies because of higher vaccination rates and stimulus support. Inflation remains a major concern in both advanced and most emerging and developing economies. Commodities prices, including crude oil have recovered from the 2020 covid-

19 pandemic shocks, and returned to pre-pandemic trajectory. Globally, vaccination coverage is on the rise, though significant difference exists between developed and developing economies. The coexistence of the delta and omicron variants are likely to pose some challenges to the pace and coverage of global economic recovery in 2022. The rising inflation in advanced economies is causing central banks in these countries to commence tapering much earlier than expected. The expected rise in interest rates may further reduce capital flows to developing economies in 2022. The headwinds facing the China economy will have spillover effects on both the global and Nigerian economies.

Domestic Economic Development

Staff presentations on Economic Development and Outlook, the Banking Sector Stability Review and Development Financing, provide particularly useful information to MPC members. The Economic Report showed that real GDP growth climbed further in the third quarter of 2021 to 4.03%, marking the fourth consecutive quarter of increase. The PMIs remained below the 50-benchmark index, suggesting tepid growth in October 2021. The real GDP growth was majorly driven by the non-oil sector, especially trade, 1.65%; telecommunication and information services, 1.22% and financial services, 0.61%. The agricultural sector grew by 1.22%; while the industrial sector contracted by -1.63%. Similarly, the oil sector contracted by -1.63% in Q3 2021, compared to -12.65% in Q2 2021.

Headline inflation also declined to 15.99% in October 2021. Both food and core inflation decelerated year on year. Food inflation decelerated from 19.75% in September 2021 to 18.34% in October 2021. Core inflation also fell from 13.74% in September 2021 to 13.24% in October 2021.

All Share index (ASI) increased by 7.19% in October 2021 to 42,038.60 index points, up from 39,219.61 index points in August 2021. Monetary base decreased by -1.31% month on month in October 2021. While Cash in Circulation rose by 4.54%; CRR and other reserves declined by 2.21% and 16.12% respectively.

Pressures on external reserves persisted with a decrease of 0.55% month on month at end of October 2021. The exchange rate depreciated at the I&E window from N411.22: \$1 average October 2021 to N411.75: \$1 average November 15, 2021. External reserves rose from US\$41.34 billion on October 29, 2021, to US\$41.45 billion by November 12, 2021. Current account balance as a share of GDP and FPI inflow improved in September relative to August 2021. Both FDI and remittances declined in Q3 2021 relative Q2 2021.

Fiscal account showed the encouraging news of rising share of non-oil revenue in total government revenue. Despite this improvement, revenue GDP ratio is still too low and there is space for both non-oil and oil revenues to expand to boost the capacity of the governments at all levels to deliver on their promises to the Nigerian people. FGN debt rose from N28.9 trillion end March 2021 to N31.3 trillion end-June 2021.

The Banking Sector Stability Review showed that the banking sector remains strong, resilient, and very stable. Financial Soundness Indicators, such as, Non-performing Loans ratio, Capital Adequacy Ratio and Liquidity Ratio were all close to their respective prudential requirements and in many cases, not too far, from those of comparator countries. All measures of industry size, bank credit, assets and deposits were higher than the corresponding values in October 2020. Of particular interest is the growth in bank industry credit, which rose from N19.39 trillion in October 2020 to N23.49 trillion in October 2021.

The report on the Other Financial Institutions (OFIs) showed that they contributed significantly to aggregate consumer's credit. Other Financial Institutions granted 22.39 million facilities to 9.23 million loan beneficiaries out of which 69.26 thousand were corporate consumers. Overall, OFIs contributed an additional N2.79 trillion or 10.62% to banking sector credit in the past one year.

The Development Financing Report showed the aggregate and sectoral decomposition of Central Bank interventions in the economy. The sectoral breakdown as well as geopolitical breakdown of the intervention showed that core sectors of the economy and Nigerians from different geopolitical zones

have benefitted from the intervention funds. Nigerians, who otherwise would not have been able to access credit from the formal market have been able to benefit from the intervention funds. The CBN interventions have boosted both the demand and real sides of the economy. Boosting the demand side is extremely critical given the size of consumption in the aggregate GDP as well as the huge compression on real income caused by COVID-19. The increase in aggregate supply also has the capacity to increase GDP as well as lower general price level.

My Concern

Despite the general improvements, albeit marginal in economic performance in October 2021, there are vulnerabilities and uncertainties in global and domestic economies. Insecurity remains a potent challenge to the Nigerian economy and domestic price formation. The drop in crude oil output to 1.52mbd in Q3 2021 from 1.54mbd in Q3 2020 due to oil theft and pipeline vandalism should be of concern given that the 2022 budget was predicated on 1.88 mbd. In addition, the incidence of COVID-19 virus and its variants, given the low vaccination coverage in Nigeria presents its own uncertainty on the economy in the medium term. The rising negative sentiments among world leaders and leading investors to financing new investments in the development of fossil energy, may affect long term development of the petroleum sector.

Furthermore, there is also the uncertainty around 2022, being a pre-election year. Usually, foreign investors are less likely to commit to new investment in the country, affecting foreign exchange reserves.

Going forward, there is a need to harmonise monetary policy with the monetary and development targets in the newly approved Medium-Term National Development Plan. There is also a need to decompose the intervention fund to those that went to boost aggregate demand and those that went into expanding the supply base of the economy. Careful examination of the contributions of these interventions should guide the decision on the pace of winding down the interventions in 2022. The CBN must continue to explore ways

of further derisking the critical sectors of the economy to enable the deposit money banks to lend to them. As CBN interventions cannot continue in the long term, domestic banks must take on the responsibility of supporting households' credit and the MSMEs. The unsustainability of PMS subsidy is an issue that the government should address urgently.

My Vote

In view of the above, and recognizing the current trend in most economic indicators, especially the real GDP and inflation, as well as the uncertainties and vulnerabilities in the global economy, it is my considered opinion that we need to wait to get a better information on the direction of the economy. Hence, I cast my vote to maintain all monetary parameters at their extant values:

- 1) MPR at 14.5%
- 2) CRR at 27.5%
- 3) LR at 30%
- 4) Asymmetry corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

The Monetary Policy Committee held its last meeting in 2021 with prospects of continued global and domestic recovery, despite lingering and emerging risks

- new variants of the coronavirus driving infection resurgence in parts of the world, uneven access to vaccines, inflation spikes, high public debt levels and policy normalization in some Advanced Economies.

The Committee broadly appraised its existing policies vis a vis global and domestic developments over the year, taking stock of their impact on macroeconomic variables and the price stability mandate, in particular.

Undoubtedly, it had been an eventful year. Spillover effects from the COVID-19 pandemic persisted, and policy makers across many jurisdictions were faced with complex policy trade-offs with limited room to maneuver. Thankfully, **domestic policies yielded some positive results, evidenced by fairly good economic fundamentals with a positive short-to-medium-term outlook,** considering persistent vulnerabilities.

Data recently released by the National Bureau of Statistics shows that domestic **real GDP grew by 4.03 per cent year-on-year in Q3 2021 compared with 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. This marks the fourth consecutive positive output growth following exit from recession in Q4 2020.**

Quarter-on-quarter, real GDP grew by 11.07 per cent in Q3 2021 compared with -0.79 per cent in the preceding quarter. The improvement in real GDP was driven mainly by growth in the non-oil sector by 5.44 per cent, reflecting the importance of ongoing CBN interventions and fiscal stimulus measures alongside efforts to further diversify the economic base and strengthen growth

enhancing sectors. Some sectors, such as Crude Petroleum & Natural Gas and Solid Minerals, however, contracted, signifying the need for sustained stimulus to strengthen the recovery which remains fragile. This is also reflected in both the manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) for November 2021 which continued to remain below the 50 index points at 47.3 and 47.5 index points, respectively.

Domestic prices maintained a downward trend with headline inflation (year-on-year) decelerating for the seventh consecutive month to 15.99 per cent in October 2021 from 16.63 per cent in the previous month. The decrease was attributed to a marginal decline in both the food and core components to 18.34 and 13.34 per cent in October 2021 from 19.57 and 13.74 per cent, respectively in September 2021. Inflation though decelerating remains at double digit and above the Bank's benchmark of 6-9 per cent, driven majorly driven by food component, high electricity tariffs and exchange rate adjustments. However, with the onset of harvest, sustained CBN interventions and complementary fiscal policies to boost food supply, domestic prices are expected to decline further in the near term.

In addition, **external reserves increased by 0.17 per cent, from US\$41.34 billion in October 2021 to US\$41.41 billion as at November 18, 2021**, a development that will further sustain the current exchange rate stability at the Investors' and Exporters' (I&E) window with positive implications for domestic prices.

Improvements in the macroeconomy were also propelled by a resilient financial system which channeled significant credit to support growth enhancing sectors such as agriculture, manufacturing and general commerce, as well as individuals and households. **Total credit increased by N4.10 trillion (21.12 per cent) between end-October 2020 and end-October 2021**, due largely to the increase in the industry funding base and the CBN's Loans to Deposit Ratio policy, which has encouraged banks to increase lending to the real sector of the economy. This credit to the real sector has been critical for the economic recovery.

Capital Adequacy and Liquidity ratio remained strong at 15.2 per cent and 41.2 per cent respectively, in October 2021, while Non-Performing Loans (NPLs) ratio declined to 5.3 per cent in the same period from 5.7 per cent in October 2020 reflecting proactive regulatory oversight and strong industry risk management practices. Positive domestic GDP growth prospects should further strengthen asset quality, solvency ratios and sustain financial system stability. Furthermore, digital innovations such as the CBN's historic pioneering launch of the e-naira last month, is expected to strengthen monetary policy management and eventually foster financial inclusion.

While I note the positive domestic trajectory, emerging global headwinds call for strengthened and coordinated policy support to sustain Nigeria's economic resilience. The much-anticipated tapering of the \$120 billion bond purchase announced by the Fed commencing this month and impending interest rate rise (monetary policy normalisation), has triggered quicker than expected tightening by some Emerging Market and Developing Economies, to remain competitive and mitigate likely massive asset sell-offs. The inherent risk of capital flow volatility and exchange rate pressures on the back of monetary policy normalisation in some Advanced Economies can be mitigated by sustained confidence building policy actions.

Although portfolio inflows to Nigeria have been benign through the pandemic, accelerating ongoing efforts at improving age long domestic structural FX supply constraints remains imperative, to ensure Nigeria remains an attractive investment destination. On that note, I commend the fiscal authorities for innovative initiatives such as the Finance Act which provides incentives to boost productivity in critical sectors including Agriculture, Solid Minerals and Manufacturing. The CBN's recently introduced 100 for 100 policy on production and productivity targeted at increasing non-oil exports and improving foreign exchange supply would also help re-invigorate local industry to replace imports and fuel growth.

Of concern remains the surge in COVID-19 infections around the world requiring fresh restrictions in some countries to contain spread of the virus amidst vaccine hesitancy, which poses risks to the slow global recovery. These developments are reflected in recent global growth projections by the IMF for 2021 which have been downgraded from 6.0 per cent to 5.9 per cent and expected to slow to 4.9 per cent in 2022.

Notwithstanding emerging global risks, the positive trajectory of key domestic fundamentals earlier highlighted – output and Inflation in particular, and ongoing CBN interventions in growth enhancing sectors, leads me to the same conclusion as my last statement that **there is no immediate need to alter the monetary policy stance**. More so, inflation though above the 6-9 per cent benchmark, is trending downwards and efforts at mitigating supply induced inflation is yielding results, while routine monetary sterilization is helping to keep monetary induced inflation under control without requiring adjustments to the primary policy levers.

As such, I vote to retain the current stance of monetary policy by maintaining all parameters at existing levels – MPR at 11.5 per cent; an asymmetric corridor of +100 and -700 basis points around the MPR; CRR at 27.5 per cent and Liquidity Ratio at 30 per cent.

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The Monetary Policy Committee (MPC) held its last meeting for the year 2021 against a backdrop of persisting and emerging new strains of the COVID-19 viral disease. Indeed, global economic recovery continues to depend on the course of the pandemic, despite measures taken to contain it. Although significant progress has been made on vaccine rollouts globally, near to medium term growth outlook remains fairly uncertain, as the resurgence of new and deadlier strains of the virus threaten the gains of the recent past.

In view of the lack of predictability on the duration of the pandemic, the International Monetary Fund (IMF) in its October 2021 World Economic Outlook (WEO), revised downwards the 2021 global growth forecasts from 6.0 percent to 5.9 percent, with expectations that it will moderate to 4.9 percent in 2022. The development is necessitated by weaker growth forecasts for the Advanced Economies (AEs) where the resurgence of the pandemic has been more widespread. However, stronger projections for commodity exporting Emerging Markets and Developing Economies (EMDEs) are expected to have a calming effect on growth.

Inflationary pressures are intensifying across several Advanced Economies. Although the development has been attributed to high energy prices and lingering supply - demand imbalances, the emergence of the Omicron variant of the COVID-19 virus raises new concerns about further acceleration of inflation. Even though, the US Federal Reserve Bank has commenced tapering, it remains unclear how fast the process will usher in policy rate increases to rein-in inflation. The European Central Bank, according to its President – Christine Lagarde, is cautious of the implication of an interest rate increase on employment, and would rather adjust when inflation is sustained around the 2 percent target, over the medium term.

Staff report showed a sustained recovery in global trade, arising from unexpected strong recovery of demand in some Advanced Economies and EMDEs. Global trade is expected to expand to 10.0 percent in 2021 and moderate to 7.0 percent in 2022, spurred by merchandise trade volume which is estimated to grow by 10.8 percent in 2021. However, the realisation of the forecast is predicated on faster resolution of the current supply chain disruptions, and on early containment of the Omicron variant of the COVID-19 virus to avert border closures and economic lockdowns.

Generally, commodity prices surged, buoyed by a strong recovery in demand. In particular, crude oil prices remained upbeat, albeit a slight dip in November 2021. The OPEC Basket, Bonny Light, UK Brent and West Texas Intermediate sold

at US\$79.37/b, US\$77.99/b, US\$81.24/b and US\$75.94/b respectively, on November 19, 2021. For commodity exporting EMDEs, the encouraging oil price development is expected to improve growth projections in the medium term.

Global debt maintained a steady upward climb, with EMDEs alone accessing US\$3.5 trillion or 72.9 percent of total new debt of US\$4.8 trillion in Q3 2021. Most of these countries are already at high risk of debt distress. It is hoped that the US\$650 billion (about SDR 456 billion) allocations of Special Drawing Rights to Member Countries by the IMF, would help in reducing additional non-concessional financing and provide fiscal space for priority development expenditures.

THE DOMESTIC ECONOMY

On the domestic economy, leading indicators of economic performance points to a relatively strong recovery from the pandemic. Real GDP grew by 4.03 percent year-on-year in Q3 2021, from 5.01 percent year-on-year in Q2 2021. On quarter-on-quarter, Real GDP grew by 11.07 percent in Q3 2021 from -0.79 percent in Q2 2021. The improvement was driven by growth in the non-oil sector, led by the Services sector which grew by 8.41 percent, a slight moderation from 9.27 percent recorded in Q2 2021. However, the Agricultural sector, a leading employer of labour, continued to be weighed down by structural challenges and other legacy issues, growing by a paltry 1.22 percent in Q3 2021 from 1.30 percent in Q2 2021.

Performance of indexes which gauge the rate of manufacturing and non-manufacturing activities were mixed and remained below the 50 points benchmark. The Manufacturing PMI increased to 47.3 points in October 2021, from 46.6 points in the preceding month, due largely to improvements in delivery times, while the Non-Manufacturing PMI contracted to 47.5 points in October 2021, from 47.8 points in September 2021, due to rising prices of goods and services.

Although the economy recovered in Q3 2021 in real terms, output gap remained within the negative region, narrowing by 1.5 percentage points to -2.1 percent in Q3 2021 from -3.6 percent in Q2 2021, indicating excess capacity.

Headline inflation year-on-year, sustained a downward trend, moderating further to 15.99 percent in October 2021, from 16.63 percent recorded in September 2021. The downward trajectory of inflation was largely driven by the deceleration in the core and food components of the index by -0.51 and -1.23 percentage points, respectively. Food inflation, year-on-year moderated to 18.34 percent in October 2021, from 19.75 percent in September 2021. Similarly, core inflation slowed to 13.24 percent in October 2021 from 13.74 percent in September 2021. With the rapid return of economic activities, buoyed by targeted interventions in the real sector to increase output, I feel that the current downward trend in inflation would be sustained.

Trends in monetary aggregates indicated a 2.38 percentage points increase in Broad Money supply (M3), to 7.10 per cent in October 2021, although it fell by -2.54 percentage points below the 2021Q4 indicative benchmark of 9.64 percent. The growth in M3 was driven by growth in Net Domestic Assets (NDA), which is reflective of the improvement in aggregate credit net. Money market rates oscillated within the standing facilities corridor, reflecting the prevailing liquidity conditions in the banking system. In the equities market, key indicators improved, following renewed investor confidence.

Financial Soundness Indicators (FSIs) remained robust with strong liquidity and Capital Adequacy Ratios (CAR), as well as moderating Non-Performing Loans (NPLs) following improved risk management practices. Industry liquidity ratio was 41.39 percent as at end-October 2021 compared with 35.56 percent at end October 2020. Average industry CAR stood at 15.20 percent at end-October 2021 from 14.98 percent in the previous month. This is well above the 10 percent regulatory minimum. NPLs was 5.29 percent at end-October 2021 compared with 5.43 percent at end-September 2020. Total Credit increased by N4.10 trillion or 21.12 percent year-on-year, due largely to the increase in the

industry funding base as well as the CBN's directive on Loans to Deposit Ratio (LDR).

On external sector performance, the gross external reserves stood at US\$41.41 billion as at November 18, 2021, compared with US\$41.34 billion in October 2021, a moderate increase of 0.07 per cent, attributed to receipts from 3rd parties, as well as proceeds from Royalties and oil related taxes.

Fiscal operations of the Federal government remained in tandem with the expansionary fiscal stance to support economic growth, infrastructure development, and douse the devastating effects of the COVID-19 pandemic, amongst others. The rapid automation and visibility of federal government fiscal operations would bolster the revenue collection process and translate to positive revenue generation and efficiency in expenditure management.

CONSIDERATION FOR VOTING

At this meeting, I note the sustained gradual recovery of key macroeconomic indicators as inflation moderated for the 7th successive month, buoyed by deceleration in the core and food components of inflation. Similarly, real GDP year-on-year grew for the 4th consecutive quarter in a V-shaped direction. The significant improvement in growth quarter-on-quarter gives assurance that strong economic fundamentals underlie the recent trend in growth. Supporting the growth dynamics is the gradual improvement in PMIs and the narrowing of the output gap, albeit remaining in the negative region.

In the light of the foregoing, it is worth contemplating whether it is apt in the circumstances to consider monetary policy tightening as a policy choice to accelerate the downward trend in inflation and attract yield seeking foreign investors. But looking back to where we were a year ago, and where we are now, there is no doubt that monetary and fiscal stimuli played a significant role in bringing the economy out of recession. I strongly believe that consistency and perseverance with the current monetary and fiscal measures is required to close the output gap and restore the economy on a faster pace of recovery.

Within the price stability and growth objectives of the Central Bank of Nigeria (CBN), immediate concerns include the resurgence of new variants of the COVID-19 pandemic across the globe, tepid performance of the Chinese economy (being our major trading partner) and commencement of monetary policy tapering and normalization, especially with the rising level of inflation across many Advanced Economies. Tapering may not necessarily result in enormous capital flight as is being feared, because, investors among other things are also interested in positive real rates of returns. Hence, what is important now is to explore other sources of risk-free foreign capital without necessarily altering the existing monetary policy stance.

I must commend the CBN over the rollout of new intervention programmes to directly support the flow of finance and investments to enterprises with potential to kick-start a sustainable economic growth trajectory. Against the foregoing background, I vote to maintain all policy parameters at their extant levels, as follows:

- MPR at 11.5 percent
- The Asymmetric Corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 percent
- CRR at 27.5 percent

5. ASOGWA, ROBERT CHIKWENDU

Background:

The rocky road out of the COVID-19 pandemic has created a combination of shocks in many economies which continue to pose multiple challenges for policy makers. However, with a wide range of instruments including support of monetary and fiscal policies as well as the optimism of economic agents, global recovery has been strong, but uneven across countries. On the domestic side, the Nigerian economy is also on a sound recovery path despite challenges on the external sector. Output growth looks good even as the effect of the low comparative base which brought about high growth rates in the second quarter of 2021 waned partly in the third quarter. The domestic economic forecast appears balanced at the time of this MPC meeting with key downside risks relating to the emergence of new variants of the covid-19 virus especially in key export countries and the persisting community security threats in many states of the country. Policy decisions at this meeting are thus guided by the outlook of the global economy as well as the unfolding trends in the domestic economy especially the paths of inflation, output, external trade and domestic financial stability. Essentially, the need to ensure that the economy returns close to the pre-pandemic levels remains a paramount policy focus. However, it is also important to keep a close eye on emerging global developments and in

particular, the materialization of the new risk scenarios in order to assess future monetary policy stance.

Assessment of the Global Economy:

Most indicators of global economic activity show positive momentum except for the rapidly rising inflation rates and the debt levels. For global growth, the third quarter 2021 GDP figures for many countries suggest a positive recovery trend although at a moderate pace than the second quarter but the base effects from the deep global contraction in 2020 still somewhat overstates this growth momentum. CBN Staff report show that output growth moderated in the third quarter in the US, UK, Japan and China compared to the second quarter of 2021, but for the Euro Area, there was a modest improvement in output growth to 2.2 percent compared to the 2.1 percent recorded in the second quarter. According to the IMF's October forecast, global GDP growth is now projected at 5.9 percent in 2021, which is 0.1 percentage points lower than the Fund's July forecast, and this slight downward revision stems from weaker output growth in several advanced economies. Despite the slight downgrade, economic and financial conditions remain very expansionary. For instance, the global purchasing Manager's index as at October 2021 indicates further economic expansion particularly for manufacturing which edged up to 54.3 index points while for services it jumped to 55.6 points. The momentum of world trade has also been sustained for some time now, even though the volume moderated in October, but remains at relatively high levels of activity.

In terms of the global financial market, the conditions are good overall, but performance has been mixed across economies since October with volatility increasing as from the third quarter of 2021. The main global equity indices increased sharply, while corporate bond yields have also been on the rise in many advanced economies. Currencies in several developing and emerging economies lately strengthened against the dollar, but the Euro weakened against the dollar.

On the global inflationary trend, the pressures have continued to build to well above central banks' targets in a number of economies. Higher energy prices, alongside the strong recovery in global demand as well as capacity constraints in the goods sector, all contributed to this development. The month-on-month inflation rate in the US increased by 0.9 percent in October 2021 from 0.4 percent in the previous month, and in UK it increased by 1.1 percent in October compared with 0.3 percent in September. The Euro Area month-on-month inflation rate also increased by 0.8 percent in October compared with 0.5 percent in the previous month. This rapidly accelerating prices have disrupted recovery very sharply in a number of countries including Russia and Brazil, where year-on-year inflation rates rose to 8.1 and 10.7 percentages, respectively, in October 2021. For now, risks to the inflation pressures remain tilted on the upside and likely to last longer as disruptions caused by the pandemic resulted in supply backlogs, and there are fresh factory shutdowns in some countries.

A patient monetary policy choice seems to be the favoured option for so many countries now, with their central banks maintaining an accommodative stance in order to further bolster demand. For instance, the European Central Bank, announced no change to its monetary policy at its October meeting. The Bank of England also at its November 2nd meeting retained policy rate at 0.1 percent, with a continuation of its bond purchase programme. Similarly, the Central Banks of Japan and India at their respective monetary policy committee meetings in October, left policies unchanged. The only change announced by India was the end of quantitative easing from the end of October 2021, with a forward-looking guide of possible policy rate tightening from April 2022. However, in some other countries where inflation has risen or is expected to rise the most, their Central Banks have gradually started shifting towards less accommodative monetary policies so as to counteract the inflationary trend. In the US, the Fed has approved that the reduction in asset purchase should begin as early as November 2021 and is expected to cut \$15 billion per month until June 2022 with expectations that policy rates will be raised at the end of 2022. The Central Bank of Brazil hiked its policy rates by 150bps in October and

pre-announced another hike of a similar magnitude at the next meeting in December. Similarly, the Central Bank of Russia on October 22nd hiked its policy rates by 75 bps, while the Central Banks of Mexico and Iceland raised policy rates by 25 basis points and 5 basis points on November 12 and 15 2021, respectively.

A key downside risk to the global economic outlook in the short term is the new threat which the 'Omicron variant' of COVID-19 poses especially as it is currently spreading at a period of an already stretched global supply chain. The number of new cases has been on the rise since early October, especially in the US, Russia and Europe. Currently a number of European countries have imposed new pandemic restrictions so as to control the spread, with Austria already implementing a full lockdown. Even though such large and synchronized global lockdown as seen in early 2020 is highly unlikely, prices of some commodities are already being affected which pose immediate challenges for several developing and emerging market economies.

Domestic Economic Outlook.

Turning to the domestic economy, current available information based on the 2021 third and fourth quarter data suggest that the economy has continued on the recovery path. Although the real GDP growth (y-o-y) slowed from 5.01 percent in the second quarter to 4.03 percent in the third quarter but this partly reflected the waning of the base effects from the 2020 contraction. The quarter by quarter (q-o-q) assessment depicts a more positive upward trend as real GDP (q-o-q) grew by 11.07 percent in the third quarter from -0.79 percent in the second quarter of 2021. This improvement arose from growth in the non-oil sector, especially trade and ICT, and driven by a rebound of economic activities and supply chain networks as fiscal and monetary stimulus enabled Nigerian enterprises to increase production and households to increase demand for goods and services. The expectation is that the improvement in domestic production is likely to strengthen further in the coming months given the October increases in both manufacturing and non-manufacturing PMIs as

well the Manufacturers Association of Nigeria (MAN) CEO's confidence Index for October 2021. With oil prices expected to sustain a favourable tempo in the remaining parts of 2021, GDP growth may likely remain strong in the fourth quarter, consistent with earlier forecasts.

The inflation rates have continued the momentum of positive moderation for both year on year and month on month measures. The headline inflation (y-on-y) slowed from 16.63 percent in September 2021 to 15.99 percent in October 2021 while on a month on month basis, it slowed from 1.15 percent in September to 0.98 percent in October. Interestingly, and for the first time in several months, both food inflation and core inflation declined at the same time in October 2021, at the year on year as well as month on month levels. Even though the current inflation expectations of the general public appears to have increased at this time given the uncertainties related to fuel and electricity costs, the underlying pressures arising from insecurity in the food producing regions is slightly abating.

The domestic financial market remains strong and resilient in the months of September and October, but some minimal volatility was observed in the equity market in the early weeks of November. Data for September and October 2021 indicate that credit flows, particularly to the industry and services sectors have improved significantly, thereby supporting the revival of the economy. The banking sector credit to the economy continued to expand in October 2021, particularly, the credit to the private sector. Overall, the growth of broad money (M3) improved significantly from 4.72 percent on a month-on-month basis at end September to 7.10 percent at end October 2021, which is commensurate with the increase in credit to the private sector and increase in claims of the Central Bank on government. Stock prices have risen slightly in recent times due to strong investors sentiments with market capitalization increasing by 7.36 percent between August and October 2021 and the All-share index also rising by 7.19 percent during the same period. The banking sector itself remains stable and resilient, just like the position at the MPC meeting in September despite the fact that the profitability indicators were unchanged between September and

October. The non-performing loans ratio for the banking sector decreased further from 6.0 percent in August 2021 to 5.4 percent in September and further to 5.3 percent in October 2021. The size of the total banking industry assets has continued an impressive expansion, increasing by 7.83 trillion naira or 15.83 percent (y-on-y) between October 2020 and October 2021.

The external and fiscal sectors remain the weak links in the domestic economic outlook, similar to the situation in the last MPC meeting. The deficit in Nigeria's external account balance has continued to recur for over ten quarters but CBN staff report show a significant reduction in the size of the deficit as at the second quarter of 2021, arising from the positive change in the 'trade in goods' and 'secondary income account' balances. The persisting deficits have sustained the pressure on the exchange rates even when the gross official reserves increased by 15.56 percent in September, before declining by 0.55 percent in October 2021. There are however projections that the current account balance may turn towards a positive territory sometime in 2022, if the oil export momentum is sustained. On the fiscal side, pressures remain unabated, similar to the position during the September MPC meeting as CBN staff report show that the revenue-expenditure gap has further widened. The persisting context of increasing fiscal deficits amid weak revenue performance has kept worsening the debt-revenue ratios posing considerable uncertainty around the future domestic economic outlook. As the economy moves from recovery to expansion, a rebound in government revenues is absolutely necessary if the budget deficit to GDP ratio is to be reduced in 2022 and 2023. However, nationally implemented expenditure related reforms, especially on the non-salary recurrent side with focus on fiscal discipline will help achieve a sustainable budget balance in the future.

Monetary Policy Outlook and Decision:

In consideration of the macroeconomic developments as highlighted above, the current policy rate and the ongoing monetary stimulus remain appropriate and should be continued. Nevertheless, the Central Bank is expected to remain

vigilant and continue to monitor domestic and global macroeconomic and financial market developments so as to take appropriate actions if necessary with the aim of maintaining inflation in the desired direction and supporting sustained economic recovery.

I will thus vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%

6. OBADAN, MIKE IDIAHI

The global economy has maintained impressive recovery but with the Advanced Economies (AEs) ahead of the Emerging and Developing Market Economies (EMDEs). The former is moving to pre-COVID-19 levels because of higher vaccination rates and larger fiscal and monetary policy support while the latter remains confronted with severe headwinds associated with continued high COVID-19 infection rates, poor availability and distribution of vaccines and weaker policy support. Now, the fresh threat to sustained recovery path of global economies is the resurgence of COVID-19 infections, manifesting the mercurial nature of the virus considering that it has been mutating into more virulent variants and causing uncertainties to pervade the global economy.

AGGRAVATED GLOBAL UNCERTAINTIES

Uncertainties confronting the global economy have also arisen from other sources: the uneven distribution of vaccines; rising inflation rates; and supply-side constraints, the combined impact of which is weighing down on recovery. Nevertheless, what seems to be causing greater concern now is the resurgence of COVID-19 infections, especially in the Advanced economies, with the prevalence of the Delta strain and other highly fatal strains of the virus. In these economies, the resurgence of the Pandemic has been substantial, causing serious concerns even in countries that have achieved a high rate of vaccination. Some of these countries are actively considering containment

measures including lockdown or partial lockdown of the economies. Indeed, some countries have already implemented partial lockdowns with serious implications for national and global growth prospects. Among those that have implemented full or partial lockdown are the following European countries: Latvia, Russia, Netherlands, Austria and Ireland. In Africa, up to seven countries including South Africa, Botswana and Zimbabwe are battling a new variant of the virus which has caused the AEs to impose travel restrictions on the countries.

No doubt, the global economy has continued on the recovery path, but the momentum has weakened. As a result of the impact of the highly transmissible Delta variant, the global COVID-19 death toll has risen to about 5 million amidst elevated health risks, thus, impeding a full return to normalcy. The pandemic outbreaks affected critical areas of global supply chains, resulting in the shortages of key inputs, and dragged manufacturing activity lower in several countries, with negative consequences for domestic production, exports and foreign exchange generation.

Uncertainties surround the normalisation of monetary policies by the AEs. Following the huge monetary and fiscal injections into their economies to combat the adverse impact of the COVID-19 pandemic and the subsequent improved economic conditions and rising rates of inflation to historical levels, the advanced economies have given indications to commence the normalisation of their monetary policies. This entails a gradual tightening of monetary policy. The United States has already given specific signals to gradually reduce its bonds purchase programme by US\$15 billion per month, beginning from November 2021. Policy rates hikes in the AEs and some other economies may follow much earlier than expected with implications for borrowing costs. Against the backdrop of the massive liquidity injections from fiscal and monetary interventions, there are concerns that when monetary authorities commence policy normalisation, it may jeopardize global financial system stability. For the EMDEs, monetary policy normalisation portends a near - to medium-term tightening of external financial conditions for the group and other developing economies. Consequently, there is the fear that global

capital flows will shift away from the EMDEs toward the AEs, thus widening the recovery gap between these two groups of economies.

One thing that seems clear though is that the AEs are not likely to rush into withdrawal of policy support for economic recovery. Monetary and fiscal policy remain largely accommodating in advanced and emerging market economies, with long-term interest rates in major advanced economies at historic lows. A survey of fourteen (14) central banks by the Central Bank of Nigeria, between September and November 2021 revealed a continuing trend towards monetary accommodation in both the advanced and emerging market economies. It is likely that global monetary and fiscal policy would continue to support economic recovery and growth, job creation and livelihoods, and achieve full recovery.

NIGERIA'S MONETARY POLICY DIRECTION: SOME KEY ISSUES

1. Economic growth performance

Economic activities have gained impressive momentum following the relaxation of covid-19 containment (lockdown) measures and substantial expansionary fiscal and monetary policy support to critical economic and social sectors. Consequently, the real GDP grew by 4.03 percent (year-on-year) in the third quarter of 2021, showing a sustained positive growth over the last four quarters since the recession witnessed in 2020. Also encouraging is that the quarter-on-quarter growth rate which was negative at -0.79 percent in the second quarter but turned into an impressive positive of 11.07 percent in quarter 3. Perhaps, a seasonally-adjusted quarter-on-quarter GDP would provide better policy information than year-on-year series.

The growth achieved has not reached a level that provides room for comfort. It is not solid and there are numerous headwinds including uncertainties in the global economy arising from the resurgence of COVID-19 infections in the advanced countries, the looming normalisation of their monetary policies; foreign exchange market pressures; unpredictable global oil market and risk of

continuing low oil production; legacy infrastructure deficits and the persisting insecurity. Indeed, the latter is a major factor in the persisting output gap as it has increasingly impacted food supply, prices and other physical economic activities negatively.

2. Inflationary pressures.

It is good news that the inflation rate further decelerated in October 2021, owing to a lower food price despite persisting insecurity and other structural bottlenecks. Indeed, all the three measures of inflation – headline, food inflation and core inflation – declined year-on-year in October. While the headline inflation witnessed eight months of continued deceleration from 18.12 percent in April to 15.99 percent in October 2021, food inflation declined consistently over a period of 8 months from 22.95 percent in March to 18.34 percent in October 2021. However, the rates of deceleration of the measures are sluggish, thus making the present headline inflation rate to still remain much higher than the 6 – 9 percent CBN target range. The rate is still too high and impacting negatively on living conditions of the people. Importantly, with the price of oil maintaining an upward trend and translating into overall high cost of energy, high cost of local production and importation, the expected moderation in prices could be dampened. Also, depreciation of the naira, uncontrolled fiscal deficits and the planned removal of fuel subsidy before the end of June 2022 are potential threats to inflation control.

3. Positive developments in the crude oil market but ...

For many months now, the global oil market has witnessed and sustained a rebound. For example, the average spot price of Bonny Light rose from US\$49.97/barrel in December 2020 to US\$84.10/barrel in October 2021. This compares with US\$50.43/barrel on 4th January, 2021 and a trough of US\$14.67/barrel recorded on 27th April, 2020. In the meantime, oil price futures

up to December 2022 deliveries are looking upwards. The price of crude oil is expected to be around US\$72.56/barrel for December 2022 deliveries.

The developments in the oil market constitutes good news to oil exporting countries except, perhaps, Nigeria. The country has weak production capacity to take advantage of the increased oil prices. Crude oil production at 1.54 mbpd in October 2021, is below the budget benchmark and potential production capacity because of several challenges. Importantly, is the fact that oil export sales are used to finance importation of refined petroleum products. Consequently, oil and gas sales in the global market virtually do not have any positive impact on government revenue or external reserves.

4. Weak fiscal position of the Government.

The Federal Government has struggled against the tide of two debilitating recessions in five years, occasioned largely by externally-induced shocks including the coronavirus-induced health and economic shocks. With little or no fiscal buffers, it has had to borrow heavily, domestically and externally, to mitigate the negative impacts of the shocks. Consequently, public debt skyrocketed, standing at N35.465 trillion (US\$86.571 billion) as at June 30, 2021 from N31.009 trillion (US\$85.896 billion) in June 2020. External debt represents 38.66 per cent (N13.710 trillion), while domestic debt represents 61.34 per cent (N21.754 trillion). Actual domestic debt service amounted to N935.458 billion for the period January-June 2021. With the rising debt service-to-revenue ratio, which is currently put at over 90 per cent, heavy debt servicing is taking a toll on lean fiscal resources and could hinder availability of funds to finance critical government programmes and projects. Against the backdrop of limited domestic revenue mobilisation and little or no foreign exchange inflow from oil and gas exports, the government's fiscal capacity remains weak. It requires continued monetary support to drive economic activities towards the desired sustainable growth trajectory.

5. Normalisation of monetary policy in the Advanced Economies.

This may likely bring to fore the risk of heightened capital outflows from the country as rising asset yields abroad become more attractive. In other words, market sentiments and the potential hike in short and long-term interest rates abroad could lead to capital flight from Nigeria, as investors seek more rewards for their investments. The impact on external reserves, exchange rate, the balance of payments and foreign borrowing costs could be substantial. However, considering that since the COVID-19 era, foreign capital flows to Nigeria has been limited, while capital outflows heightened, impacting the exchange rate and reserves negatively, the concern about monetary policy normalisation needs to be moderated.

OPINION

In light of the foregoing, my considered opinion is the need not to take any monetary policy decisions that may turn out to be precipitate. Yes, the AEs are considering normalisation of their monetary policies. But this should not drive us to follow suit which may not be in the interest of the desired recovery and growth of the economy. With the fresh wave of covid-19 infections in the Advanced Economies and re-introduction of lockdowns/partial lockdowns, uncertainties surround the planned normalisation of monetary policies.

Importantly, competitive normalisation of monetary policies by the AEs and even some developing economies could impact global growth and trade negatively while relativities remain unchanged. Those economies that have the necessary shock absorbers may normalise their policies. But others would need to watch the situation.

The vulnerabilities which the economy faces are still very potent and must be taken cognisance of: persistence of covid-19 and its virulent variants; unrelenting insecurity challenges; continued impact of double-digit inflation; continued weak fiscal position of the government; threats from normalisation of monetary policy by the Advanced Economies in terms of raising foreign borrowing costs; impact of foreign exchange market pressures; and others.

It is important to allow extant monetary measures which have been proved to be effective in supporting growth and inflation control to further strengthen the growth achieved while the existing administrative monetary policy tightening measures should be continued as we watch global and domestic developments and understand their implications.

My vote therefore is to hold all the policy parameters constant, that is:

Monetary Policy Rate: 11.5 percent

Cash Reserve Requirement: 27.5 percent

Liquidity Ratio: 30.0 percent

Asymmetric Corridor: +100/-700 percent

CONSIDERATIONS FOR POLICY ACTION

i. The CBN intervention projects are many so as to impact different critical sectors of the economy in aid of economic recovery and respectable growth. Indeed, they have played a notable role in lifting the economy out of the two recessions and complemented fiscal policies significantly in putting the economy on the current path of sustained recovery. But for the CBN's sizeable development interventions, the story of the country's economic performance could have been different in an opposite direction. However, as the economic recovery moves into a sustained growth trajectory, it will be important to review the projects portfolio in relation to their impact and objectives with a view to rationalising the portfolio. This will accord with the intervention nature of the projects.

ii. Monitoring surveillance of the foreign exchange activities of commercial banks. The public is still sceptical about their transparency and cleanliness in foreign exchange matters. Notable challenges encountered in the implementation of the new foreign exchange policy include slow turnaround time for foreign exchange transactions, use of fake documentation, multiple applications by same applicant, amongst others. A key desire is ensuring that

eligible customers have unimpeded access to foreign exchange. Achieving this requires close monitoring and effective supervision of the banks to ensure transparent and efficient foreign exchange sales to customers and to curb sharp practices aimed at undermining the new foreign exchange policy.

iii. The fiscal operations of the Federal Government which resulted in a cumulative huge deficit between January and July, 2021, remains a major issue of concern because of the public debt and inflationary implications. No doubt, low revenue generation capacity is a major source of problem. But it is important for the government to also consider adjustment on the expenditure side, in particular, the recurrent spending which reflects very high cost of governance. In the kind of challenging fiscal situation in which the government is operating, it is imperative to avoid proliferating high-educational institutions that have huge financial implications. The government should also be mindful of entering into agreements, with huge financial implications, with trade unions and which turn out to be un-implementable from the government's perspective. In other words, it is important to appreciate that the present situation requires economic adjustment and hence the need to rationalise non-essential public spending.

iv. The external reserves stock is still at a rather uncomfortable level. The gross external reserves increased by 15.56 per cent to US\$41.57 billion in September 2021. The increase to this level was largely due to the inflows from Eurobond proceeds and the Special Drawing Rights (SDR) Allocation to Nigeria by the International Monetary Fund (IMF). The Bank would need to sustain the current foreign exchange management strategies which ensure that foreign exchange gets to priority growth-stimulating sectors of the economy. Perhaps, when petrol subsidy is eliminated sometime next year, as the Federal Government has indicated and the Dangote refinery starts to meet domestic needs for fuel, foreign exchange reserves will be significantly boosted to enhance exchange rate stability through increased interventions by the Bank in the foreign exchange market.

v. Inflationary pressure is easing and the economy is expanding as a result of consistent and supportive fiscal and monetary policy actions and the reopening of economic activities. But inflation expectations remain high, owing primarily to subsisting security challenges, energy prices, exchange rate adjustments, and persistent production constraints. There is need therefore for policy to relentlessly focus on achieving greater security of all parts of the country, ensuring exchange rate stability and minimising the constraints in the operating business environment.

vi. GDP reporting and analysis: Government seems to place emphasis on year-on-year analysis of the GDP. It seems to me that quarter-on-quarter analysis has more policy significance, for example, growth in the 3rd quarter in relation to the second quarter in the same year. It shows progress or lack of it in each quarter as a stimulus for action. If there is concern about seasonal effects in quarterly GDP, then the series can be seasonally adjusted and used for policy analysis. Year-on-year analysis could just provide additional information.

7. OBIORA, KINGSLEY ISITUA

In view of continuing economic recovery and decelerating inflation, I voted to: retain the Monetary Policy Rate (MPR) at 11.5 per cent, the Cash Reserve Ratio (CRR) at 27.5 per cent, the Liquidity Ratio (LR) at 30 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance would continue to support the recovery, foster inclusive growth and rein in inflationary pressures.

The resurgent Coronavirus Disease (COVID-19) pandemic continued to disrupt global economic activities. Since the September MPC meetings, the number of confirmed Covid cases globally had increased by 13.0 per cent from 227 million to 257 million in November 2021. The number of deaths also increased by 11.0 per cent from 4.6 million to 5.1 million. Whilst other regions are recording lower number of confirmed cases, another wave of COVID-19 is ravaging Europe, making it the current epicenter of the pandemic. Vaccine inequality continues to widen between advanced and developing economies. As of 24th November, 2021, 7.5 billion doses were administered globally, but only 5.0 per cent of the population in developing countries had received at least one dose of the vaccine. This severe

vaccine inequality resulted in many African countries missing the target of 10 per cent vaccination coverage set for September 2021, as only 15 out of 54 countries met the target. The World Health Organisation (WHO) has also projected that only 5 out of 54 countries in Africa would meet the target of 40 per cent vaccination coverage by December 2021, leaving many African countries vulnerable to further outbreaks. There is, therefore, an urgent need to accelerate delivery of vaccines to Africa and other developing countries. As the United Nations Children's Fund (UNICEF) explained - "Vaccine inequity is not just holding the poorest countries back – it is holding the world back,"

Although the global recovery slowed down marginally due to the associated adversities of COVID-19 infections, it is expected to remain resilient in 2021.

The JPMorgan Global Purchasing Manager's Index expanded by 54.5 in October from 53.3 points in September 2021, making it the sixteenth (16th) consecutive month it exceeded the 50 points benchmark. The expansion was driven by activity in the business, consumer, financial services, and intermediate goods industries. The IMF marginally revised downward global growth to 5.9 per cent for 2021 (WEO October 2021) from 6.0 per cent in its July projection due to the severe impact of the COVID-19 pandemic, associated supply disruptions, and rising inflationary pressures in advanced and emerging market economies. Projections for Sub-Saharan Africa was, however, revised upwards to 3.7 per cent from 3.4 per cent, due to improvement in global trade and rising commodity prices. The latter was the least growth rate for any region when compared with others. Advanced economies, Emerging and Developing Asia, Latin America and the Caribbean, which are set to grow by 5.2, 7.2 and 6.3 per cent, respectively. At the country level, while the United States, United Kingdom, China and India are projected to grow at 6.0, 6.8, 8.0 and 9.5 per cent in 2021. Also, South Africa, Nigeria, and Angola have been estimated to grow at 5.0, 2.6, and -0.7 per cent, respectively. These divergences in growth across the regions and countries reflect the rate of vaccination coverage, the size of economic policy support, and the structural conditions of these regions and countries.

The domestic economy maintained its strong recovery, supported by policy responses from monetary and fiscal authorities. Official data from the National Bureau of Statistics (NBS) revealed that Nigeria's real GDP grew by 4.03 per cent in Q3 2021, compared with 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. This was driven by the non-oil sector, that grew by 5.44 per cent, even as the oil sector contracted by 10.73 per cent. The sub-sectors that recorded significant growth include the Rail Transport and Pipelines, Metal Ores, Air transport, Financial institutions which grew by 59.93, 54.92, 33.31 and 25.50, respectively. Others were Trade, Telecommunication and Information services, Food, Beverage and Tobacco, and Cement that grew by 11.90, 10.87, 6.07, and 5.68, respectively. However, productivity in the Oil Refining, Crude petroleum and Natural Gas, Quarrying and Fishing contracted by 47.83, 10.73, 4.20, and 3.97 per cent, respectively. Nonetheless, the IMF marginally revised Nigeria's growth projection upwards to 2.6 per cent from its July 2021 projection of 2.5 per cent, driven by oil price recovery, monetary and fiscal policy support. Headline inflation (year-on-year) moderated further to 15.99 per cent in October from 16.63 per cent in September 2021. Since April 2021, inflationary pressures had continued to decelerate and expected to moderate further into 2022. This was largely driven by the gradual decline in the two major components, food and core inflation that declined to 18.34 and 13.24 per cent in October from 19.57 and 13.74 in September 2021, respectively. Furthermore, the gross external reserves increased by 15.83 per cent to US\$41.34 billion at end-October 2021 from US\$35.69 billion at end-October 2020. The increase was largely attributed to the inflows from the Eurobond proceeds and the Special Drawing Rights (SDR) allocation to Nigeria by the International Monetary Fund (IMF), which in part, promoted the current relative exchange rate stability at the Investors' and Exporters' (I&E) Window.

The banking system remained sound and safe buoyed by monetary policy support and prudential measures. The total asset of the industry increased by 15.8 per cent from N49.47 trillion in October 2020 to N57.30 trillion in October 2021. Accordingly, the gross banking sector credit increased by 21.12 per cent from N19.39 trillion in October 2020 to N23.49 trillion in October 2021. Increased in credit was recorded

in manufacturing, consumer credit, general commerce, information and communication and agriculture. Lending to individuals and households also increased from N1.91 trillion in the first quarter of 2021 to N1.95 trillion in the third quarter of 2021, reflecting the COVID-19 Targeted Credit Facility (TCF) and other interventions by the CBN. The Capital Adequacy Ratio (CAR) was 15.2 per cent, slightly above the prudential benchmarks of 15.0 per cent, indicating the soundness of the industry. Furthermore, the Non-Performing Loans (NPLs) ratio was 5.3 per cent at end-October 2021, an improvement from 5.7 per cent at end-October 2020, reflecting the case-by-case review of regulatory forbearance, the Global Standing Instruction (GSI) policy, and strengthening of risk management practices in banks. The monthly weighted average for the Inter-bank Call rate decreased from 13.21 per cent in September to 10.00 per cent in October 2021. The Open Buy Back (OBB) rate, however, trended upward from 11.11 per cent in September to 12.18 per cent in October 2021, reflecting a tight banking liquidity condition, which contributed to the deceleration in inflationary pressures and supported banking system stability .

Even as the domestic economy is on the path of a strong recovery, significant headwinds remain. Globally, there is a growing concern about the virulent variants of the COVID-19 pandemic that continue to mutate with devastating consequences on lives and livelihoods. Although the economy continued to recover since it exited the recession in Q4 2020, it is still fragile. Oil Refining and Crude Petroleum and Natural Gas, which are key sectors of the economy extended contractions into Q3 2021. Whilst the performances of the manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) improved, they remained below the 50 index points at 47.3 and 47.5 points, respectively. Although headline inflation sustained a downward trend since April 2021, driven by the onset of the harvest season and various intervention programmes by the Bank to increase food supply nationwide, it is still above the Bank's implicit target of 6.0 to 9.0 per cent. Although headwinds to the domestic economy that include slow vaccination rate, limited fiscal space, lingering insecurity and infrastructural deficits could severely affect the prospect of a full

recovery in the medium term, the current positive trajectory of output growth and moderating inflation supported by the Bank's aggressive interventions in the key targeted sectors of the economy offers prospects of a stronger economy .

The modest achievements against these headwinds, therefore, need to be sustained through the deployment of more growth-induced policies. That is why I support the current effort of the Bank for introducing the 100 for 100 Policy on Production and Productivity (PPP). The policy will boost production in the manufacturing sector; reduce imports and expand the non-oil exports; improve accretion to external reserves; and ensure exchange rate stability. Also, the launching of the Tertiary Institutions Entrepreneurship Scheme (TIES) in November 2021 would enhance entrepreneurship and promote economic growth in strategic sectors of the economy as well as address the challenges of youth unemployment in the country. However, given Nigeria's huge investment needs and limited fiscal space, we must continue to attract the private sector to the critical sectors of the economy through Public-Private Partnership (PPP). This arrangement will enhance efficient development and productivity of infrastructure, human capital and other critical sectors of the economy on a sustainable basis.

In view of the modest growth recovery and to allow policy actions already deployed by the Bank to take their full effect, I believe the best course of action is to hold all parameters and, on that basis, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 per cent;
- Retain the Cash Reserve Ratio (CRR) at 27.5 per cent;
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor to +100/–700 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision

My decision to vote for a hold on all the policy parameters in today's meeting was informed by my conviction that, given the data on both inflation and

output as well as their most probable forecasts, neither tightening nor easing would be an optimal stance. Although the pace of disinflation remains slow as the rising prices continue to erode real income, raising the rate to hasten the rate of disinflation could hurt the fragile output recovery. Loosening to accelerate the rate of output recovery could halt the disinflationary process and exacerbate the exchange rate pressure, which would further threaten inflation. Given the rising uncertainty in the global economy in the face of the 4th wave of the COVID-19 pandemic and the possibility of faster rate of tapering in the US as its inflation surges, a hold on all the policy parameters appears to be the optimal choice.

2.0 Background and Justification

2.1 Global Economic Developments

Although the global economic recovery continues across both Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs), the rising inflation and resurgence of covid-19 infections in the US and other major economies have further beclouded the medium-term horizon. On the one hand, the rising global inflation raises the possibility of increasing the rate of tapering towards policy normalization than earlier planned. On the other hand, the spread of the new variants of the COVID-19 raises the risk of lockdowns and restrictions. Despite the continued rise in global trade and the rising oil prices due to rising demand, the global economic outlook remains uncertain.

As the global economy continues to recover in response to the coordinated fiscal and monetary injections across Advanced Economies and EMDEs, two emerging developments pose significant threat to the recovery. First, the rising inflation in the US economy implies that the policy normalization, which has started with the Feds tapering of its bond-buying programme in November 2021, may be accelerated, and raising rates may start earlier than programmed. Second, fourth wave of COVID-19, which has started as the rates of infection and spread of new variants increase, may threaten the global

recovery. The global economic recovery has, however, continued in the third quarter of 2021, and is expected to grow at 5.9% in 2021, but moderate to 4.9% in 2022. The growth projections for the Advanced Economies was downgraded to 5.2% in 2021 and 4.5% in 2022. Growth in the EMDEs was, however, revised upwards to 6.4% in 2021 from 6.3% but will moderate to 5.1% in 2022. Output in the US economy has grown (q-on-q) by 2.0% in Q3 2021 compared with the 6.7% in Q2 2021, but is projected to grow at 4.0% in Q4 2021. The growth in Q3 2021 was less than expected. The Euro zone expanded by 2.2% (q-on-q) in Q3 2021 compared with the 2.1% achieved in Q2 2021. Output in the UK economy slowed down to 1.3% in Q3 2021 compared with 5.5% achieved in Q2 2021. It is forecasted to grow at 2.1% in Q4 2021. In Japan, output contracted (q-on-q) by 0.8% in Q3 2021 from a positive growth of 0.4% in Q2 2021. The contraction was driven by the resurgence of COVID-19 infections, supply chain disruptions and decline in exports.

Output developments among the EMDEs were mixed in Q2 2021. Russia, South Africa, and China have recorded positive output growth but India and Brazil recorded contraction during the quarter. India contracted by -10.2% (q-on-q) in Q2 2021 compared with 2.3% in Q1 2021. It is expected to grow at 1.4% in Q3 2021 and further to 2.2% in Q4 2021. China grew by 1.3% (q-on-q) in Q2 2021 and moderated to 0.2% in Q3 2021 due to power shortages and supply chain bottlenecks. There are also significant concerns over the buildup of systemic risk in the real estate market. Output in China is expected to grow at 1.3% in Q4 2021. Output in Brazil declined by -0.1% (q-on-q) in Q2 2021 from 1.2% in Q1 2021 due to resurgence of the new variants of COVID-19. It is expected to grow by 0.7% in Q3 2021 and 0.8% in Q4 2021. Russia grew by 1.8% (q-on-q) in Q2 2021, and is forecasted to grow by 2.5% in Q3 2021 and decline to 0.7% in Q4 2021. In Nigeria, q-on-q output grew by 11.1% in Q3 2021 from -0.8% in Q2 2021. The global trade is expected to grow at 10% in 2021 and moderate to 7.0% in 2022. As at November 19, 2021, the price of OPEC basket stood at US\$ 79.37/b compared with US\$71.98 per barrel on September 14, 2021 or US\$54.38 per barrel in January 2021. The upward trend is, however, expected to halt given

the decision of OPEC+ to maintain a gradual supply increase, as well as the release of strategic reserves by the US, China, Japan and others.

Global inflation continues to rise driven by supply bottlenecks and rising commodity prices. In the Advanced Economies, inflation is forecasted to rise to 2.8% in 2021, but decline to 2.3% in 2022. Inflation in US, Eurozone and UK has been rising well away from their long-term target of 2%. In the US, inflation rose to 6.2% (y-on-y) in October 2021 from 5.4% in September 2021. In the Euro area, inflation rose from 3.4% in September 2021 to 4.1% in October 2021. In the UK, inflation increased from 3.1% in September 2021. In the EMDEs, inflation is forecasted to increase to 5.5% in 2021 from 5.1% in 2020, but will decline to 4.7% in 2022. During the year 2021, however, price developments across the countries continued to be mixed. Between September and October 2021, inflation declined in Egypt (from 6.6% to 6.3%), Kenya (from 6.95% to 6.45%) and Nigeria (from 16.33% to 15.99%).

Data on global capital flows shows that portfolio flows to Emerging Markets have declined from US\$28.1 billion in June 2021 to US\$29.8 billion in September 2021. In terms of composition, the data shows that debt portfolio flows have increased relative to equity flow as US\$26.2 billion of the flows were debt flows, while only US\$3.6 billion was equity. In September 2021. The uncertainty over the tapering plans US Federal Reserve and the systemic risk buildup in the Chinese real estate market have waned investor sentiments.

2.2 Domestic Economic Developments and their Implications

Available data from NBS showed that, as expected, the domestic output recovery continued in the third quarter of 2021. Indeed, although the output growth of 4.03% achieved in Q3 2021 representing a slight decline from the 5.01% achieved in Q2 2021, the Q3 growth was better than the earlier projected 3.33%. The output performance in Q3 2021 was driven by the non-oil sector, which grew by 5.44% (y-on-y). The non-oil GDP growth was driven by growth in

services and agriculture. The oil-GDP contracted (y-on-y) by -10.73% in Q3 2021 compared with -12.65% in Q2 2021. The contraction of the oil sector was due to fall in crude production level of Forcados and Escravos crude streams because of the leaks on the Trans Ramos and Bonga pipelines. The industrial sector also contracted by -1.63%, due to contraction in Mining and Quarrying. Staff forecasts show that output growth would be 2.98% for the Q4 2021 and 3.10% for the year 2021 if the oil price remains at US\$70.

The headline inflation, as expected, continued to moderate (y-o-y) from 16.63% in September 2021 to 15.99% in October 2021, representing the 7th consecutive monthly decline. The moderation was driven by decline in both food inflation and Core Inflation. Food inflation moderated (y-on-y) from 19.75% in September 2021 to 18.34% in October 2021. The decrease is driven by moderation in the prices of non-alcoholic beverages. The core inflation also slightly declined (y-o-y) to 13.24% in October 2021 from 13.74% in September 2021 driven by moderation in the prices of processed food. Staff forecasts showed that the declining trend will continue, and inflation will moderate to 15.06% in December 2021 and further to 14.08% in March 2022 driven by the positive impact of the various intervention by CBN and FGN in agriculture and real sector as well as the arrival of the harvest season.

Review of the Banking System Stability Report showed that the banking industry has remained resilient. The key indicators showed that the industry is sound, with Capital Adequacy Ratio (CAR) 15.2% as at October 2021. Asset quality of the industry has continued to improve with the Non-Performing Loans (NPLs) ratio declining further to 5.3% in October from 5.4% in September 2021. The total credit issued by the banking industry to the economy grew from N19.39 trillion in October 2020 to N23.49 trillion in October 2021, representing a 21.12% increase. The largest beneficiaries of the increased credit included Manufacturing, General Commerce, Oil & Gas, Agriculture, Construction, Health, ICT, Transportation & Storage, Power and Energy. Available data

showed that weighted average lending rates have continued to decline since January 2021.

3.0 The Basis for My Policy Choice

In choosing the options to tighten or loosen the current policy stance, I voted for hold on all the policy parameters. This is because the data and staff forecasts suggest that both inflation and output are not only trending in the desired direction, but are also most likely to continue to evolve in the desired direction in the medium-term. Although the paces of inflation moderation and output recovery may be slower than desired, neither tightening nor easing would be an optimal stance. On the one hand, tightening in order to hasten the rate of disinflation would jeopardize the fragile output recovery. On the other hand, loosening to accelerate the rate of output recovery could halt the disinflationary process and exacerbate the exchange rate pressure, which would further threaten inflation. A hold, in my opinion, is the optimal choice for now.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +100/–700 basis points; and

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

The policy environment in 2021 was characterised by efforts to rescue the global economy from COVID-19 pandemic-induced economic downturn that has been likened, in severity to the great depression of 1930s. Though the global economy recorded some rebound during the year, mainly due to slowly increasing but uneven vaccination coverage and record level fiscal and monetary stimuli, growth prospects remain threatened by spreading infections and emergence of mutated variants of the virus. The global economy therefore continued to suffer from intermittent lockdowns, with implications for controlled

reopening of economies. Despite the implications of a weak global economy for domestic economic prosperity, ingenuity of the monetary and fiscal policy authorities have moderated the negative impact on lives and livelihood of households and businesses. While the economy still grapples with high but gradually waning inflation and fragile growth, these measures have led to a slow but steady emergence of a domestic economy with growth dynamics that is becoming largely driven by the internal strength and potentials of the domestic socio and macroeconomic environment.

Global and Domestic Economic Developments

Largely measured reopening of economic activities due to increasing but uneven vaccination rate, high global trade and a generous stimulus regime aided rebound of the global economy for most part of 2021. However, emergence of new variants and rising infection rate in a couple of economies, have constrained incremental expansion of economic activities and constituted a drag on prospects of further growth. With a rebound that has largely been driven by manufacturing, other major sectors, including tourism, entertainment and travel remaining weak and trade losing momentum, recovery is likely to remain slow and gradual. Consequently, the International Monetary Fund revised the growth forecast for advanced economies downward to 5.2 per cent, while growth in Emerging and Developing Economies was reviewed upward to 6.4 per cent in 2021. Global growth forecast was also revised downward to 5.9 per cent, on account of the lingering uncertainties.

On the domestic scene, the National Bureau of Statistics (NBS) reported that the Nigerian economy grew further by 4.02 per cent (year-on-year) in the third quarter of 2021. This indicated a fourth consecutive quarters of growth, post the recession recorded in the third quarter of 2020. Driven mainly by 5.44 per cent expansion in the non-oil sector, the development also represented 11.09 per cent growth on quarter-on-quarter basis. The manufacturing sector grew further

by 4.29 per cent (year-on-year) for the third consecutive quarters, indicating a gradual rebound, as also depicted by the further rise in Purchasing Manager's Index to 47.3 index points in October 2021, from 46.6 index points in the previous month.

Headline Inflation, though remained high, declined further for the seventh consecutive month, to 15.99 per cent (year-on-year) in October 2021, from a peak of 18.17 per cent in March 2021. The deceleration reflected decline in both food and core inflation to 18.34 and 13.24 per cent, respectively, due to the commencement of harvest and relative stability in the foreign exchange market. On month-on-month basis, both food and core inflation also decelerated.

The banking system was generally resilient in 2021, guided by the Bank's measures designed to ensure the sector continues to efficiently serve as the veritable channel for financial intermediation. Industry capital adequacy and liquidity ratios, at 15.2 and 41.2 per cent in October 2021 respectively above regulatory minimum of 15.0 and 30.0 per cent throughout the year. Non-performing loans ratio improved to 5.3 per cent, from 6.1 per cent at the beginning of the year, though slightly higher than the 5.0 per cent regulatory limit.

Growth in major monetary aggregates were generally below the target for fiscal 2021, with the exception of net claims on 'other sectors' which grew by 12.24 per cent growth, above the 10.75 per cent benchmark, on account of the Bank's support for increased credit flow to the private sector to stimulate demand and business activities. Movement of rates and dynamics of activities in the money market generally reflected the liquid conditions in the banking system. Post demutualization in the first quarter of 2021, the capital market has maintained a good rally, with major market indices generally trending in the positive direction.

Following the decisive measures taken by the Bank in the middle of 2021 to further improve efficiency of foreign exchange demand and supply management, the external sector has continued to witness relative calm. Accretion to reserves, though slow, has steadily increased, while effective demand continues to benefit from the improved internal balancing mechanisms of the foreign exchange market. The fiscal space remained weak and challenged by low revenue and high debt profile, under compelling imperatives for increased expenditure to address the current fragile macroeconomic fundamentals.

Overall Considerations and Decision

Signs of improvement notwithstanding, the global economy is going into 2022 with less strong fundamentals. Uncertainties around new variants of the virus and rising infection rates, weakening trade, port delays and high shipping costs, especially in the advanced economies are major constraints to improved economic activities. Inflation remains generally high and is projected to rise further as increasing cost of trade and recovering commodity prices is passed into energy and goods prices. The probability of a muted rebound in the recovery of the global economy reinforces the need to sustain the focus of current domestic measures to catalyze domestic investment as the driver of economic growth.

Having started the year on a fragile note, the current state of the economy is a signpost that the measures we have deployed are working. Firstly, we got the economy out of recession in record time, against prediction of prolonged period of contraction. Today, with four consecutive quarters of growth, driven mainly by sustained non-oil sector expansion, robust crude oil prices and steadily recovering manufacturing sector, the prospect for further growth is bright. Clearly, our creative measures to address the supply side issues through the various interventions in the productive sectors, while also supporting

households to stimulate aggregate demand have not only supported growth but also moderated inflation. Successive months of deceleration in year-on-year inflation and recent trend of decline in month-on-month food and core inflation affirms the efficacy of the approach.

As I mentioned in my previous statements the banking sector, has been an effective and veritable channel, enabling sustained credit flow to the productive sectors, thereby helping to ease constraints to output expansion, reduce production cost and ultimately moderate inflation. Also, through innovative regulatory actions, the banking sector has remained resilient. The respite provided by effectiveness of the banking sector is now being amplified by the gradual calmness in the external sector, as the full benefit of the far-reaching reforms continued to manifest in a stable foreign exchange market. To preserve the gains, we must continue to uphold the supervisory imperatives of enforcing good behaviour and ensuring consequences for bad behaviour.

Despite the recent moderation in expenditure and overall deficit, the tight fiscal space remains a major constraint to the ability of the Government to provide the required stimulus to further push expansion in economic activities. In this regard, I hold the view that leveraging the Public Private Partnership model will be an effective approach to addressing the funding gap to aggressively implement much needed strategic initiatives, especially in infrastructure and public works. This will go a long way to further support the progress achieved in the monetary space.

I am convinced that our current policy posture to support domestic investment and demand as the driver of growth, in the face of a weakened global economy is yielding positive result. Though the path to full recovery and sustainable growth require huge resources, that we are seeing slow but steady progress provides encouragement to do more of what is working, discontinue that which is hurting and explore more to take advantage of new opportunities in the domestic socio and macroeconomic environment.

As we continue to leverage on the lessons from the performance of the measures we deployed in the recent past, noting that the current numbers and outlook were promising, it is rational to do more to support the current trend. A major imperative is that we must remain supportive of the nascent growth through various finance support programmes, even as we sustain our administrative approach at managing excess liquidity and its implications for inflationary pressure.

I therefore vote to retain the:

- MPR at 11.50 per cent;
- Asymmetric corridor of +100/-700 basis points around the MPR;
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

10. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

As the threats of the Covid-19 pandemic to food security, jobs and poverty continues to linger, my stance for the domestic economy remains pro-growth. At the beginning of 2021, overwhelming uncertainty pervaded the economy pressed by the 3rd wave of the pandemic. Today, with GDP growth and inflation trends on track, expectations for 2022 is largely promising. I favour sustaining ongoing measures to strengthen recovery and reverse structural deficiencies. To further enhance short-term prospects, synchronised fiscal-monetary support should be sustained as monetary policy continues to pursue price stability in genres that are conducive to growth.

Domestic conditions reflected the developments in the global economy, where GDP recovery remains robust. Short-term global outlook is strong, irrespective of the 0.1 percentage point IMF downgrade of 2021 growth forecast to 5.9 percent. The headwinds to global outlook include long-lasting effects of the pandemic, continued vaccine inequity, and the potential emergence of a more aggressive variant of the virus. Following the ubiquitous covid-instigated

liquidity injections and growing demand as more countries reopen, global inflation is elevated. Financial markets are recovering on the average, though huge currency pressures are developing in some EMDEs. Generally, global recovery is continuing. Yet, coordinated actions are required to resolve latent threats to outlook, especially those related to vaccine inequity.

In the domestic economy, sentiments remain positive with improving outcomes and brightening outlook. Since 2020q4, GDP has maintained an upward trajectory, consolidating from 5.01 percent in 2021q2 to 4.03 percent in 2021q3. This reflected the continued robustness of non-oil activities, which grew by 5.44 percent in 2021q3 and contributed 4.93 percent to overall growth. At -10.73 percent, the oil sector contracted again and contributed -0.90 percent. This structure does not only underscore the urgency of diversifying from oil but, more importantly, buttresses the imperatives of insulating the economy from unpredictable shocks. The various CBN interventions to boost domestic non-oil productivity, support diversification, and correct structural imbalances, are boosting economic outlook.

Though vulnerability remain due to the persistent effects of the COVID-19, the Nigerian economy is projected to strengthen in the near-term. With the nearly 2.9 percent growth estimated for 2021q4 and the better-than-expected 2021q3 outcome, CBN growth forecast for 2022 was upgraded to about 3.1 percent as against a contraction of -1.92 contraction in 2020. This reflected upturns in business and investor confidence as shown by improvements in the PMIs. The business environment is equally optimistic following sustained policy supports in the economy. Our medium-term goal is to fast-track growth above historic average. Economic activities may reach pre-pandemic levels if the resilience of non-oil activities (especially agriculture and manufacturing sectors) are given continued impetus. Extensive structural reforms are also needed to ensure that long-run paths of growth surpass potential. As business sentiments brighten, following our various supply-side support and orderly implementation of

macroeconomic policies, I expect domestic fragility to diminish with benign knock-on effects on welfare and livelihood.

Nigeria recorded a seventh consecutive month of deceleration in headline inflation rate to 15.99 percent in October 2021 from 16.63 percent in September. This reflected the disinflation in both the food and core components. Food inflation dropped 1.23 percentage points to 18.34 per cent, while core inflation reduced by 0.50 percentage points. Regardless, inflation remained at unacceptable levels, propped by structural inadequacies. Short-term projections indicate further moderations in expected inflation, especially as development financing continue to resolve supply rigidities.

Analysis of monetary condition indicated a tepid outcome during the review period with mixed interest rate developments. While weighted average inter-bank call rate fell 3.21 percentage points to 10.00 percent in October 2021, open-buy-back rate gained 1.07 percentage points to 12.18 percent. Monetary aggregates expanded in October, although, below provisional targets. Broad money growth at 7.10 percent, was 2.54 percentage points below benchmark. The observed growth was however attributable to the 9.12 percent expansion of net domestic assets underpinned by credits to the private sector. The banking system remains stable and resilient with CAR at 15.2 per cent; liquidity ratio, 41.2 per cent; and NPL ratio at 5.3 percent. In the FX market, exchange rate pressure persisted, despite external reserves accretion, while capital market metrics recorded positive performances.

In my consideration, I note the enormity of the Covid-19 shock and its long-lasting impact on the global economy. The aftershock of the pandemic is expected to reverberate into the medium-term, with huge ramifications for countries with weak structural base. Yet, given the uptick in demand, global outlook is brightening, and outcome will be enhanced if vaccine inequity is resolved. For the domestic economy, I acknowledge the success recorded so far with respect to output and inflation, the trends of which remain on track. To

tackle the extraordinary shock from the pandemic, the CBN deployed unorthodox measures, results of which are beginning to touchdown. With our various development finance support for the real sector, and administrative measures to deal with excess liquidity, recovery of the Nigerian economy is strengthening. It, however, remains fragile and below potential. There is the increasing need to boost growth through deliberate reforms and reinforce the structural base of the economy.

I note that whilst short-term domestic outlook is improving, it is imperative to maintain coordinated policies to bolster economic fundamentals. I support pro-growth measures, at this time, and favour price stability conducive to growth. Current inflation is higher-than-desired and needs to be curbed. We, however, also need to consolidate GDP growth, create jobs and boost the welfare of Nigerians. I, again, recognise the trade-off between GDP and inflation, but favour the rectification of supply constraints.

Today, with continued improvements in macroeconomic conditions based on our policies, I retain my cautious optimism. Given the forecasted trend, I am reluctant to upset the current trajectories of either growth or inflation. I note that both are trending in the desired direction and could outperform pre-pandemic levels in the near-term. To enable the effectiveness of extant policy measures to continue to permeate the system, without destabilising imminent equilibrium, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the asymmetric corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

November 2021